

The Borden Company

ESTABLISHED 1857

AND ALL SUBSIDIARY COMPANIES

ANNUAL REPORT

For the fiscal year ended December 31, 1927



JUN 23 1928

February 1928 THE BORDEN COMPANY *New York*

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ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1927



February 1928
THE BORDEN COMPANY
New York

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DIRECTORS

UNION N. BETHELL	ALBERT G. MILBANK	HENRY C. SHERMAN
LEWIS M. BORDEN	ARTHUR W. MILBURN	WALLACE D. STRACK
ALBERT T. JOHNSTON	BEVERLEY R. ROBINSON	ROBERT STRUTHERS

OFFICERS

ALBERT G. MILBANK, *Chairman Board of Directors*
ARTHUR W. MILBURN, *President*
ALBERT T. JOHNSTON, *Vice-President*
CHARLES C. LOBECK, *Vice-President*
MERRITT J. NORTON, *Vice-President*
WALLACE D. STRACK, *Vice-President*
WILLIAM P. MARSH, *Secretary and Treasurer*
GEORGE M. WAUGH, JR., *General Controller and Assistant Secretary*
STEPHEN J. DEBAUN, *Assistant Treasurer*

GENERAL OFFICES

THE BORDEN COMPANY

350 Madison Avenue, New York City 503 Market Street, San Francisco
510 North Dearborn Street, Chicago 180 St. Paul Street West, Montreal, Canada

BORDEN'S FARM PRODUCTS COMPANY, Inc.

110 Hudson Street, New York City 326 West Madison Street, Chicago
120 Murray Street, Montreal, Canada

Transfer Agent, SEABOARD NATIONAL BANK, 115 Broadway, New York City
Registrar, BANKERS TRUST COMPANY, 16 Wall Street, New York City
Counsel, MASTEN & NICHOLS, 49 Wall Street, New York City

CORPORATE ORGANIZATION AND SCOPE

THE business of your Company for the year under report may be divided into two parts:

- (1) The manufacture and sale of milk products comprising principally:

CONDENSED MILK		MALTED MILK
	DRIED MILK	
EVAPORATED MILK		CARAMELS

- (2) The purchase, preparation and distribution of:

FRESH MILK	CREAM
BUTTER	EGGS

and other Dairy Products by a system of wagon deliveries.

Beginning as of January 1, 1928, another principal division of the Company will engage in the manufacture and sale of Ice Cream. The acquisitions making this possible, as well as others resulting in further strengthening and diversification of manufacturing operations, are more particularly referred to later on in this report.

THE manufacturing operations are conducted by The Borden Company (which dates back to 1857, in the production of Eagle Brand Condensed Milk), and its following manufacturing subsidiaries:

Corporate Name	Percentage of Stock Owned
THE BORDEN SALES CO., INC.	100%
BORDEN'S PREMIUM CO., INC.	100%
THE BORDEN WESTERN COMPANY	100%
THE BORDEN SOUTHERN COMPANY	100%
THE BORDEN COMPANY OF PENNSYLVANIA	100%
THE BORDEN COMPANY, LTD. (CANADA)	100%
BORDEN REALTY CORPORATION	100%

THE fresh milk and dairy products distribution in the so-called Metropolitan District of New York City and adjacent territory, in Chicago, Ill., and its suburbs, and in Montreal, Canada, is conducted by subsidiaries as follows:

Corporate Name	Percentage of Stock Owned
BORDEN'S FARM PRODUCTS CO., INC.	100%
BORDEN'S FARM PRODUCTS CO. OF ILLINOIS	100%
BORDEN'S FARM PRODUCTS CO., LTD. (CANADA)	100%

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C O M M E N T

THE year 1927 witnessed another period of record sales and earnings, together with a further strengthening of the financial position of our Company. The year also marked the inauguration of a policy of expansion into new but kindred fields of operation that it is believed will not only diversify but strengthen the Company's earning power. *This subject is more specifically dealt with later on in this report. These new acquisitions did not come into our possession until 1928 and are, therefore, without effect on the business and accomplishments of 1927, as herein reported.*

Sales and Net Income

Sales for the year amounted to \$132,046,779.36 and Net Income derived was \$7,154,445.41, being 5.42% on sales and \$10.32 per share on Capital Stock outstanding December 31, 1927, the Capital Stock having been increased by 62,518 shares during 1927.

Current Assets

Cash on hand December 31, 1927, of \$12,265,408.06 compares with \$10,238,058.30 on hand at the close of the previous year.

Marketable Securities on hand December 31, 1927, of \$8,640,128.76 compares with \$8,218,525.84 on hand at the close of the previous year. These security valuations in no case exceed market values.

Inventories on hand December 31, 1927, of \$8,986,324.81 compares with \$6,758,233.31 on hand at the close of the previous year. These are carried at cost or market, whichever is the lower. The inventories of the previous year proved inadequate for early 1927 requirements.

Receivables are in their usual excellent shape, collections having continued good with very small credit losses.

Net Working Capital and Ratio of Current Assets

Net Working Capital amounted on December 31, 1927 to \$24,726,622.74 as compared with \$20,753,217.67 on December 31, 1926.

Current Assets as of December 31, 1927 amounted to \$3.32 for every \$1.00 of Current Liabilities.

Mortgages and Purchase Money Notes

These items have been reduced by \$300,000.00 during the year 1927. Maturities have all been paid and where possible, anticipated, and now total \$60,000.00, all of which represents mortgages assumed in connection with property purchases.

Property, Plant and Equipment

During the year 1927, The Borden Southern Company completed construction and began operations at the new condensery at Lewisburg, Tennessee, and the Dry Milk plant at Fayetteville, Tennessee, together with their feeders. This provides three complete plants and three feeders in Southern territory. During 1928 this Company will construct and bring into operation still another plant at Macon, Mississippi, devoted to the production of Evaporated Milk. The last year likewise saw the beginning of Evaporated Milk production in Arizona by The Borden Western Company. Borden's Farm Products Co., Inc., and subsidiaries added considerably to their pasteurizing and distributing facilities during the year, most noteworthy being the new plants in Newark, N. J., Long Island City, N. Y., and 12th Ave., New York City, which are model plants of most modern design and equipment. Further work of this character will be carried on during 1928 by these Companies.

The foregoing extensions were, with certain general betterment items, treated as capital expenditures, but quite apart from these the Company at all times maintains its properties in excellent physical condition and constantly studies their efficiency, making such necessary outlay as will maintain the former and improve the latter. These as well as all other property expenditures are controlled by a conservative policy of accounting.

Expansion

While this Company is constantly increasing its business in products with which it has long been identified, your Directors nevertheless deemed it wise to further broaden and diversify its activities, with the result that there was inaugurated during 1927 a policy of expansion comprehending new but kindred products.

One logical line of expansion in the milk field was Ice Cream, and after careful analysis and consideration, negotiations resulted in the acquiring by this Company as of January 1, 1928, of all of the business and assets of two of the outstanding ice cream companies of the country,—The J. M. Horton Ice Cream Company (which business was established in 1851) and The Reid Ice Cream Corporation (in business since 1884). These companies, operating in New York, New Jersey, Connecticut and Pennsylvania, will each have operating managements made up of men who have played a large part in their successful development, and co-ordination of their activities will be accomplished through a new subsidiary, Borden's Milk Products Company, Inc., the Directors and Officers of which will be drawn from the Reid, Horton and Borden Companies.

Another important acquisition was that of the business and assets of Merrell-Soule Company (founded in 1868) including its subsidiaries, Canadian Milk Products, Ltd. of Canada, and Merrell-Soule Company, Ltd. of England, all as of January 1, 1928. Merrell-Soule Company and subsidiaries are principally engaged in both domestic and export markets in the manufacture and sale of Dried Whole Milk under the well-known brand "Klim," as well as other trade marks. They have pioneered in and are the largest single producers of Dried Whole Milk, a

product of great and increasing importance, of which The Borden Company has heretofore produced none. They are also largely engaged in the production of Dried Skim Milk, and in connection with these latter operations produce fresh cream, of which The Borden Company through its subsidiaries are distributors in New York, Chicago, Montreal and other large cities. They have since 1885 produced and marketed "None Such Mince Meat," also a dried product enjoying wide use in American homes, and have recently developed and are now commercially producing dried fruit juices, prescription products, etc. Merrell-Soule Company with its subsidiaries operates twenty-three plants (not including feeder stations) in the states of New York, Pennsylvania, Wisconsin and California and in the Province of Ontario, Canada, in which territories we are now operating condenseries. Their products reach the consumer through the same channels already employed by our Company and altogether the business loans itself to a practical and economical merging with our own.

An important acquisition in Canada was the stock of Ottawa Dairy, Ltd., operating the largest dairy business in that section. This is an outstanding Canadian business, established in 1900, with a splendid record of achievement under able management. This Ottawa business will continue under the same name, management and direction as heretofore with Borden representation added, but will become affiliated with Borden's Farm Products Company, Ltd. of Canada, operating a similar business in Montreal.

All of these acquisitions are of old established concerns of high standing. Purchase thereof has been made with due regard for the character of business and personnel, established good-will and demonstrated earning power, payment for which has been principally in Capital Stock of The Borden Company. In the judgment of the Directors, these new businesses, furnishing logical and advantageous fields of expansion, will earn a very satisfactory return on their cost, in addition to contributing largely to a diversification of business and earning power. *As previously referred to in this report, all of these acquisitions are without effect on 1927 business as reflected herein, since in no case was title taken until 1928.*

Stock Listed on New York Stock Exchange

On December 30, 1927, the stock of the Company was listed on the New York Stock Exchange. This, we feel, marks another step of progress in that it gives the stock a breadth of market and recognition not heretofore had.

Capital Stock

Capital Stock account on December 31, 1927, stands at \$34,670,700.00 and is represented by 693,414 shares of Stock of \$50.00 par value outstanding as compared with \$31,544,800.00 and 630,896 shares outstanding on December 31, 1926, 62,518 additional shares of Capital Stock having been issued to stockholders or their assignees as of December 6, 1927, at \$60.00 per share.

The stock outstanding December 31, 1927, was held by 5664 stockholders with an average holding of about 122 shares. Employees held an aggregate of 67,784 shares.

As set forth in our letter to stockholders under date of January 11, 1928, there was on that date 872,581 shares of Capital Stock outstanding after payment for properties and businesses then acquired, with the possibility that additional stock would soon be issued in payment for other properties and businesses then under negotiation involving approximately 109,000 shares which, if consummated, would result in there being between 981,000 and 982,000 shares outstanding out of a present authorized total Capital Stock of 1,000,000 shares of \$50.00 par value each; of this additional 109,000 shares, 64,667 shares have since been issued, or are to be issued presently under an existing contract. Because of the foregoing and to provide for future growth and financing, your Directors are of the opinion that the authorized Capital Stock of your Company should be increased to 2,000,000 shares of the par value of \$50.00 each and the aggregate par value of \$100,000,000. Accordingly a special Stockholders' Meeting has been called to take action upon the above proposed increase and other pending matters, about all of which you have been formally advised.

Additional Stock to be Issued

Should the stockholders at their special meeting of March 15, 1928, give their approval to the proposed increase of the authorized Capital Stock, the Directors, as in each of the four preceding years, deem it wise and of advantage to the stockholders and the Company to issue additional Capital Stock from such increase, particularly having in mind the value of a continuing strong cash and working capital position which has been affected by unusual cash expenditures since the close of 1927. As advised in detail under date of January 11, 1928, this stock is offered to stockholders at \$105.00 per share to the extent of one-twelfth (1-12) of their holdings; that is, one share of new stock of the par value of \$50.00 for every twelve shares (of the par value of \$50.00 each) held by them.

The Organization

Grateful acknowledgment is here made of the spirit and accomplishments of a splendid organization of intelligent and diligent team-workers, the results of whose labors are reflected in the accompanying report.

Respectfully submitted,

ARTHUR W. MILBURN,
President.

THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

Consolidated General Balance Sheet, December 31, 1927

A S S E T S

PROPERTY, PLANT AND EQUIPMENT:

Including Madison Avenue and Hudson Street Office Building

Properties \$54,037,988.38

LESS:

Mortgages—Madison Ave. Office Building

Properties \$ 1,400,000.00

Reserve for Depreciation 15,686,066.42 17,086,066.42

NET PROPERTY AND PLANT \$36,951,921.96

CURRENT ASSETS:

Cash \$12,265,408.06 (a)

Receivables—Less Reserve for Doubtful Accounts

5,499,575.21

Marketable Securities (at Market or Less)

8,640,128.76

Finished Goods (at the Lower of Cost or Market)

5,750,416.11

Raw Materials and Supplies (at the Lower of Cost or Market)

3,235,908.70 \$35,391,436.84

PREPAID ITEMS AND MISCELLANEOUS ASSETS 159,171.01

TRADE MARKS, PATENTS AND GOOD WILL 2,500,000.00

TOTAL \$75,002,529.81

(a) Subject to payments during the early part of 1928, to be made in connection with the acquisition of the properties and businesses of Reid Ice Cream Corporation and J. M. Horton Ice Cream Company, Inc. It is expected, however, that as a result of these and other transactions, together with a proposed sale for cash of additional capital stock of The Borden Company, of which stockholders already have been advised, there will be provided a substantial increase in working capital of the companies.

THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

Consolidated General Balance Sheet, December 31, 1927

LIABILITIES

MORTGAGES	\$	60,000.00
CURRENT LIABILITIES:		
Dividends Payable	\$1,040,121.00 (b)	
Accounts Payable	6,625,169.96	
Accrued Accounts:		
Income Taxes (Estimated)	1,143,430.75	
Other Items	1,856,092.39	10,664,814.10
DEFERRED CREDITS		45,438.95
TOTAL		\$10,770,253.05
CAPITAL STOCK—THE BORDEN COMPANY:		
693,414 shares Common (\$50.00 each)	\$34,670,700.00	
RESERVES:		
Insurance, Contingencies, etc.	9,327,411.78	
SURPLUS:	20,234,164.98	
TOTAL CAPITAL STOCK, RESERVES AND SURPLUS		\$64,232,276.76
TOTAL		<u>\$75,002,529.81</u>

(b) Dividend declared November 1, 1927, payable March 1, 1928, to stockholders of record February 15, 1928, applicable to shares of capital stock outstanding December 31, 1927. (This dividend declaration applies also to 189,834 additional shares of capital stock issued between January 1 and February 15, 1928.)

THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

*Statement of Consolidated Income and Profit and Loss
for the Year Ended December 31, 1927*

GROSS SALES	\$132,046,779.36
NET OPERATING PROFIT:	
(After deducting all operating charges, including Deprecia- tion, Insurance and Property Taxes)	\$ 7,700,820.81
OTHER INCOME—Interest Received (Net), etc.	741,150.37
GROSS INCOME	\$ 8,441,971.18
OTHER DEDUCTIONS—Income Taxes (Estimated)	1,287,525.77
NET INCOME	\$ 7,154,445.41
SURPLUS CREDITS:	
Surplus, January 1, 1927	\$ 16,387,960.05
Gain on Property and Securities Sold (based on cost)	1,591,840.01
Premium realized from sale of Capital Stock	625,180.00
GROSS SURPLUS	\$ 25,759,425.47
SURPLUS CHARGES:	
Dividends—Declared and paid during year	\$3,154,480.00
Declared in 1927, payable in 1928	1,040,121.00 (a)
Interest on Subscriptions to Capital Stock	147,762.74
Appropriations to Reserves	1,182,896.75
(Including as in former years provision for profit sharing, amounting for 1927 to \$772,973.13)	5,525,260.49
SURPLUS, December 31, 1927	\$ 20,234,164.98

(a) Dividend declared November 1, 1927, payable March 1, 1928, to stockholders of record February 15, 1928, applicable to shares of capital stock outstanding December 31, 1927. (This dividend declaration applies also to 189,834 additional shares of capital stock issued between January 1 and February 15, 1928.)

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN THE PRINCIPAL CITIES OF
THE UNITED STATES OF AMERICA
—AND IN—
LONDON, PARIS, BERLIN, SHANGHAI,
MONTREAL, HAVANA, MEXICO CITY

37 WEST 39TH STREET
NEW YORK

THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

CERTIFICATE OF AUDIT

WE have made a general audit of the books and accounts of The Borden Company and its Subsidiary Companies for the year ended December 31, 1927.

We have verified the accounts representing cash and securities either by examination of such assets or by obtaining certifications of depositaries.

The charges to property accounts have been controlled by a conservative policy. Adequate reserves have been provided for depreciation of property and for possible losses, and full provision has been made for all known liabilities.

The inventories of finished goods and raw materials and supplies represent book balances as shown by the inventory records, which are adjusted from time to time to agree with physical inventories, and which were examined and appear to be correct, all inventory valuations being based upon cost or market, whichever was lower.

WE HEREBY CERTIFY that, in our opinion, the accompanying Consolidated General Balance Sheet and Statement of Consolidated Income and Profit and Loss correctly exhibit, respectively, the financial condition of the Companies at December 31, 1927, and the results of their operations for the year ended that date.

HASKINS & SELLS.

New York, February 20, 1928.

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Borden's